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#### FINANCING CAPITAL INVESTMENTS IN THE USSR, 1949 - 1952

The following report, based on Soviet budget reports and other Soviet publications, attempts to break down the sources of capital investment financing since 1949. Estimates for 1952 are made on the basis of the 1949 budget, the last which gave fairly detailed figures on capital investment financing. It is estimated that, in spite of the same planned level of budget investment outlays in 1952 as in 1951, net industrial investments for this year are probably planned at a higher level than for last year.

Numbers in parentheses refer to appended sources.

Some of the most important figures of the budget which are still reported by the Soviet government annually, though on an ever-declining scale, are those on economic expenditures of the budget. Of these, the figure on capital investment gives one of the few clues to the actual growth of the Soviet economy. If one considers that in the period of the Third Five-Year Plan about 84 percent of all capital investments in new industrial construction went to the capital goods industry (1), the importance of capital investments as the backbone of the growing Soviet military power is obvious.

According to the report on the 1952 budget, by Minister of Finance Zverev (2), planned expenditures for the national economy for 1952 are to be 1.9 billion rubles more than for 1951. The total increase of 25.6 billion rubles in expenditures of the 1952 budget over 1951 is accounted for largely by the proportionately large increase in planned military expenditures.

The breakdown of planned expenditures from the budget for 1952, as given in Zverev's budget report, is as follows:

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	<u>Billions of Rubles</u>	<u>Percent of Total Expenditures</u>
National economy	180.4	37.8
Agriculture and forestry	34.7	
Social and cultural activities	124.8	26.2
Education <u>/including sci-</u>		
<u>entific research/</u>	60.0	
Public health and physical		
education	22.8	
Social insurance and se-		
curity	37.5	
Subsidy to mothers	4.5	
Defense	113.8	23.9
State administration	14.4	3.0

Zverev's budget report further revealed that a total of 143.1 billion rubles will be spent on capital investments and on the increase in working capital in 1952.(2) However, not all of these investment outlays are channeled through the budget. In the postwar period an ever-increasing share of outlays for investments are borne by state enterprises which reinvest part of their profits directly.

Table 1, compiled from budget reports for 1948 - 1952 as indicated, shows the increasing importance of enterprises' own resources as a source of capital investments in the postwar period.

Table 1. Source of Capital Investments  
(in percent)

<u>Period</u>	<u>From the Budget</u>	<u>From Enterprises' Profits and Other Resources</u>
1947 (3)	33.6	16.4
1948 (3)	86.3	13.7
1949 (plan) (4)	76.3	23.7
1950 (plan) (5)	78.4	21.6
1951 (plan) (6)	74.4	25.6
1952 (plan) (2)	68.6	31.4

It is interesting to note that, while the share of capital investments which will be financed from enterprises' internal sources in 1952 greatly exceeds the 1951 level, actual profits which are planned to be retained by enterprises in 1952 will be less than in 1951.(2) A possible explanation of this apparent contradiction may lie in increasing depreciation charges in 1952 and smaller allocations from retained profits for other than capital investment purposes.

The share of investments which are financed from the budget varies for different sectors of the economy. Capital investments in agriculture, for example, have generally been almost completely financed through the budget, while

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a large part of investments in industry have been financed by industrial enterprises themselves. The 1949 budget report gave a significant breakdown of the sources of capital investments by sectors of the economy.

Table 2 shows the relationship between investments financed through the budget and investments from enterprises' own resources for various sectors of the economy in 1948 - 1949.

Table 2. Financing Capital Investments by Branches of the Economy (7)  
(in billions of current rubles)

	<u>1948</u>			<u>1949</u>		
	<u>Total</u>	<u>From Budget</u>	<u>Internal Sources</u>	<u>Total</u>	<u>From Budget</u>	<u>Internal Sources</u>
All national economy	66.1	57.1	8.9	105.5	79.8	25.6
Including:						
Industry	46.3	39.7	6.6	72.2	52.8	19.3
Agriculture	4.3	4.2	.1	9.2	8.9	.2
Transport and communications	8.9	7.1	1.8	13.5	9.0	4.5
Trade and procurement	.8	.6	.2	.9	.6	.3
Other branches	5.6	5.3	.2	9.5	8.3	1.2

It can be seen from the table that in 1949 the budget accounted for 96.9 percent of all capital investment outlays in agriculture but only 73.1 percent in industry and 66.6 percent in transport and communications.

Using the above data and the 1949 budget report, the share of total budget allocations which were devoted to capital investments in sectors of the economy can be calculated (Table 3).

Table 3. Allocations and Investments From the Budget for 1949 (Planned)  
(in billions of rubles)

	<u>Total Allocations</u>	<u>Investments</u>	<u>Percent of Budget Funds Used for Investments</u>
National economy	152.5	79.8	52.3
Including:			
Industry	75.5	52.8	69.9
Agriculture	32.7	8.9	27.1
Transportation	14.7	9.0	61.2
Trade and procurement	6.5	0.6	9.2
Other branches	17.1	8.3	48.5

It can also be calculated that in 1949 about 66 percent of total capital investment outlays from the budget went into industrial investments and only about 11 percent each went to agriculture and transportation.

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In 1952, 54.3 percent of total budget allocations to the national economy will go into investments. (2) The share of budget allocations to the economy which are to be devoted to investments has not varied greatly since 1949 except for 1950, when it was planned to be almost 64 percent of all national economic expenditures. (The elimination of subsidies to many enterprises in 1950 probably was one of the reasons for the higher rate of investment expenditures in that year.) However, since allocations from the budget to agriculture are declining in 1952, in both relative and absolute terms, it is likely that a somewhat higher percentage of total economic expenditures from the budget will go to industry and, hence, to industrial investments. This may also explain why investment outlays from the budget in 1952 remained almost unchanged from 1951. (Moreover, the wholesale price reductions on 1 January 1952 on such goods as construction materials, machinery, equipment, etc., 287 will have the effect of increasing the ruble value of investment outlays as against last year.)

The principal source of nonbudget investments is the profits of state enterprises and economic organizations. The greatest part of these profits goes to the budget, the actual amount depending on the rate prevailing in the branch of the economy. The remaining part is spent by the enterprise for capital investments and repair, working capital expansion, and the so-called director's fund, as well as for some unidentified purposes.

On the basis of the published plan figures for 1949 and the budget reports for 1950 - 1952, we can speculate as to the following approximate breakdown of profits for 1950 - 1952. (Table 4).

Table 4. Distribution of Profits of the National Economy, 1949 - 1952  
(in billions of current rubles)

	1949 (9)	1950 (5)	1951 (6)	1952 (2)
Total profits	69.6	65.0	76.7	88.1
To budget	32.2 <sup>a</sup>	40.4	47.1	62.0
Retained by enterprises	37.4	24.6	29.7	26.1
Of which to:				
Working capital	11.4	9.6	5.9	6.1
Director's fund	1.4 <sup>b</sup>	1.3 <sup>b</sup>	1.5 <sup>b</sup>	1.8 <sup>b</sup>
Capital investment	15.3	8.7 <sup>c</sup>	17.3 <sup>c</sup>	13.2 <sup>c</sup>
Capital repair	4.2			
Other purposes	5.1	5.0 <sup>d</sup>	5.0 <sup>d</sup>	5.0 <sup>d</sup>

a. This figure does not include excess working capital which enterprises turn over to the budget. It is likely that the figures for profit deductions into the budget for 1950 - 1952 do include some excess working capital funds.

b. Estimated on the basis of 2 percent. (Trud, 26 May 50, 16 Sep 50)

c. Estimated as a residual after allowing for expenditures for "other purposes."

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- d. Estimated on basis of 1949 budget. Caution should be exercised in accepting this figure as anything but a very rough estimate. In view of the rather high levels of retained profits in 1949, this figure may be too high for the subsequent years when retained profits were smaller; therefore, investments and capital repairs for 1950 - 1952 may be understated.

It should be noted that all figures in Table 4 are plan figures. Actually, it is likely that in 1951 investments financed through enterprises' retained profits fell below the plan since actual profits of the national economy were 2 billion rubles short of the goal.<sup>(2)</sup> (While profits of the national economy fell below the plan, profit deductions to the budget in 1951 were actually more than planned.)

In conclusion, it should be noted that the distinction between investments financed through the budget and those financed by enterprises directly from their profits and other resources is not of great importance from the over-all economic viewpoint. However, it is of some importance to the individual enterprise and organization, insofar as profit deductions to the budget can be and generally are reinvested in other industries or even other sectors of the economy, whereas retained profits are used for investments within the same industry. Since industry generally accounts for the largest share of profits in the economy, it is likely that most investments from retained profits go into industrial investments. (In 1951, industry was to obtain profits amounting to about 41.2 billion rubles out of profits of 75.7 billion rubles for the national economy as a whole. 67)

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